instructions in the Department of Defense regulation, deficient physical inventory taken by the contractors, and departure from good property management practices. Generally, the physical protection and security procedures provided by contractors appeared adequate.

In commenting on the report, contractors stated that they were complying with current Defense regulations for accounting for Government-owned materials. They believed that monetary accounting controls were not necessary to ensure more accurate accountability and would increase the costs to the contractor and the Government. They considered their physical inventory procedures to be adequate for maintaining controls over Government-owned materials.

GAO believes that financial or monetary controls are desirable to provide a reasonable measure of assurance that detailed records reflect all transactions affecting Government-owned materials. GAO recommended that the regulations be amended to require financial accounting controls for such materials at least equivalant to the generally acceptable accounting principles and standards applied in normal industrial practices, appropriate to the circumstances. GAO also proposed that regulations be strengthened by providing for improved inventory procedures.

The following contractors were included in this finding:

Beech Aircraft Corp.
Curtiss-Wright Corp.
FMC Corp., Northern Ordnance Division
*Sperry Gyroscope Company, Division of Sperry Rand Corp.
Raytheon Company, Missile Systems Division
Sikorsky Aircraft Division, United Aircraft Corp.
*TRW, Inc.

NONPROFIT INSTITUTIONS

Financial control accounts were not required by the Armed Services Procurement Regulation to be maintained by nonprofit institutions, including universities, for items of industrial plant equipment and special test equipment, nor were they maintained by the universities visited by the General Accounting Office. Also, periodic inventories were not required by the Regulation, nor were they taken by the universities, even though research contracts frequently are in process for several years. When inventories were taken, the procedures employed did not provide necessary internal control. Further, the requirements of the regulation were not being adhered to with regard to control of the property by the Defense Industrial Plant Equipment Center, in that Industrial Plant Equipment was purchased without screening Government inventories, plant equipment on hand was not always reported to the Center, and certain plant equipment which was in critical short supply was donated to the universities without first screening Government inventories to determine needs elsewhere in Government.

The universities involved in the General Accounting Office review generally agreed with its findings except that one university maintained that its method of financial control was adequate. They indicated that procedures have been revised to ensure compliance with the Department of Defense regulation.

The following Universities were included in the above finding:

The University of Chicago
University of Maryland

PROPERTY MANAGEMENT FUNCTIONS IN THE DOD

The General Accounting Office reported that the value of the approval process of contractor Government property accounting systems by Government officials was questionable because the Government did not insist that the contractor maintain an adequate system, and contractor systems were allowed to continue in an approved status even though significant weaknesses existed. The General Accounting Office also reported that the Department of Defense internal auditors had performed relatively few reviews of the effectiveness of property administration at contractors' plants.

Generally, contractors did not comment on the issues raised in this section because they deal with matters relating to the effectiveness of Department of Defense property management. It appears, however, from the contractor replies, that necessary action on three contractor property accounting systems were